

**Statutory Accounting Principles (E) Working Group
Conference Call Agenda
June 9, 2016**

UPDATED REF #2015-02 –ON 6/3/16

ROLL CALL

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|---------------------------|-------------|---------------------------|---------------|
| Dale Bruggeman, Chair | Ohio | Judy Weaver | Michigan |
| Jim Armstrong, Vice Chair | Iowa | Patricia Gosselin | New Hampshire |
| Richard Ford | Alabama | Stephen Wiest | New York |
| Kim Hudson | California | Joe Dimemmo | Pennsylvania |
| Kathy Belfi | Connecticut | Doug Slape / Jamie Walker | Texas |
| Rylynn Brown | Delaware | Doug Stolte / David Smith | Virginia |
| Eric Moser | Illinois | Tom Houston | Wisconsin |
| Stewart Guerin | Louisiana | | |

MEETING AGENDA

1. Adopt 2016 Spring National Meeting Minutes (Attachment 1)
2. Expose Agenda Items
 - a. Ref #2016-14: Swaptions (Attachment 2) - This agenda item proposes to incorporate limited guidance for swaptions in *SSAP No. 86—Derivatives*. This item was drafted in response to a regulator request to provide guidance in the Annual Statement Instructions for the reporting of these derivatives. The Blanks (E) Working Group plans to expose instructional revisions during their June 2016 call; therefore SAPWG staff also recommends interim exposure. It is recommended that the Working Group move this item to the active listing, categorized as nonsubstantive, and expose proposed changes to SSAP No. 86 as detailed in the agenda item
 - b. Ref #2016-15: Change in Valuation Basis for Life Contracts (Attachment 3). This agenda item proposes updates to the change in valuation basis guidance in *SSAP No. 51—Life Contracts* to reflect principle-based reserving. The proposed guidance was developed with input from the informal PBR drafting group. The Working Group is charged with coordinating the adoption of this language with input from the Life Actuarial (A) Task Force. The revisions to SSAP No. 51, as detailed in the agenda item, provides guidance that changes in methodology will continue to be reported as a change in valuation basis, but many other updates to assumptions based on experience (as required under the methodology) will not be reflected as a change in valuation basis. In addition, explicit guidance on the initial adoption and application of PBR is provided. It is recommended that the Working Group move this item to the active listing, categorized as substantive, and expose proposed changes to SSAP No. 51 as detailed in the agenda item. In addition, staff should be directed to formally notify the Life Actuarial (A) Task Force of the exposure.

Possible comment deadline: July 8 or 20.

HEARING AGENDA**REVIEW of COMMENTS on EXPOSED ITEMS with CONCURRENT BLANKS EXPOSURES**

The following items will be considered for adoption as priority items as they have concurrent exposures by the Blanks (E) Working Group:

1. Ref #2015-02: Short Sales
2. Ref #2015-41: 5*/6* Securities
3. Ref #2016-04: Data-Captured SCA Disclosure
4. Ref #2016-05: Removal of the Class 1 List of P&P Manual
5. Ref #2016-09: Collateral Received
6. Ref #2016-11: Insurance Linked Securities – Disclosure Data Capture

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|------------------------------------|-------------|--------------|----------------------------------|----------------------------|
| 2015-02 SSAP No. 103 (Julie) | Short Sales | 4 and 5 | Comments Received | 1 |

Summary:

On November 19, 2015, the Working Group exposed *Issue Paper No. 152—Short Sales*, which introduces accounting guidance in *SSAP No. 103—Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* for short sales, as well as guidance for secured borrowing transactions when the insurer is the transferee. On April 3, 2016, the Working Group concurrently exposed a revised *Issue Paper No. 152—Short Sales*, reflecting several comments received from interested parties, and a substantively revised SSAP No. 103R.

Interested Parties' Comments:

We previously provided feedback on the Issue Paper and appreciate your consideration of our comments. We continue to believe that updates to the guidance are needed to accurately reflect the mechanics of a short sale when a security is borrowed to cover the short position. Therefore, we offer the following suggested edit to SSAP No. 103R:

95. A reporting entity transferee that borrows securities captured under this section (sale criteria is not met) and uses the borrowed securities to settle a short sale transaction shall eliminate the contra-asset recognized under the short sale (paragraph 83) **and establish a liability to return the borrowed security. The liability to return the borrowed security shall remain on the books** until the reporting entity acquires the security to return to the transferor.

Illustration - Short Sale Settled with Securities Borrowed Under a Secured Borrowing Agreement

5. The following example illustrates the accounting for a securities borrowing transaction treated as a secured borrowing, in which the insurer borrows securities and delivers the borrowed securities to a different counterparty to settle a short sale transaction.

Cash

Contra-Asset – Securities Sold Short

To recognize the cash received and the obligation to deliver securities under a short-sale

Receivable Under Securities Loan Agreement (Borrow Securities)

Cash

To recognize transfer of cash under the security borrowing agreement, with recognition of a receivable for the return. The actual securities borrowed under the agreement (as sale accounting criteria is not met) shall not be recognized on the financial statements.

Borrowed Asset (“Proceeds” of selling asset)
Obligation to return Securities Borrowed

To recognize the use of the borrowed security to settle a short-sale transaction. This transaction would be similar to receiving “proceeds” from the sale of a borrowed security – but instead of “cash” recognition of the actual borrowed asset, with an obligation to return the borrowed securities.

Contra-Asset – Securities Sold Short
~~Cash~~ Borrowed Asset

~~*To recognize the acquisition of securities to return under a short sale.*~~
Close out the short sale by delivering the asset to the counterparty

Obligation to Return Securities Borrowed
~~Borrowed Asset~~ Cash

~~*To recognize the return of the asset borrowed under the securities borrowing arrangement.*~~
Eliminate the liability to return the borrowed asset by purchasing the asset and re-establishing it as off-balance sheet collateral for the securities borrowing transaction.

Cash
Receivable Under Securities Loan Agreement

To recognize the return of cash collateral from the transferor and the unwinding of the securities borrowing agreement.

Recommended Action

(Recommended action updated on June 3. Amendments from previous agenda have been shaded below)

Staff recommends adopting the exposed Issue Paper No. 152 and the SSAP No. 103R, modified as suggested by interested parties, with an effective date of January 1, 2017. In addition to the interested parties’ proposed revisions shown above, the following revisions incorporate the effective date:

134. This standard shall be effective for years beginning on and after January 1, 2013 (effective date) and shall be applied prospectively. This statement must be applied as of the beginning of the reporting entity’s first annual reporting period after the effective date, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. Earlier application is prohibited. This statement must be applied to transfers occurring on or after the effective date. On and after the effective date, the concept of a qualifying special purpose entity is no longer relevant for statutory accounting purposes. The disclosure provisions of this statement shall be applied to transfers that occurred both before and after the effective date of this statement. Guidance reflected in paragraph 22 added from INT 03-05, EITF 01-7: *Creditor’s Accounting for a Modification or Exchange of Debt Instruments* has been in effect since June 22, 2003. Guidance in paragraphs 22 and 121 was originally contained in INT 99-14: *EITF No. 96-19, Debtor’s Accounting for a Modification or Exchange of Debt Instruments, as amended by FAS 166* and was effective October 4, 1999. Revisions to incorporate guidance for short sales, detailed in Issue Paper No. 152, are effective December 31, 2016 annual financial statements shall be applied prospectively to transactions occurring on or after January 1, 2017, with interim and annual statement reporting thereafter.

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|----------------------------------|------------------|--------------|----------------------------------|----------------------------|
| 2015-41 SSAP No. 1 (Julie) | 5*/6* Securities | 6 | No Comments | 8 |

Summary:

On November 19, 2015, the Working Group moved this item to the nonsubstantive active listing and exposed this agenda item requesting comments on whether revisions are needed to statutory accounting if the SVO no longer provides a designation of 5* investments after reviewing insurer self-certifications and if insurers self-designate with disclosure in a general interrogatory. In response to comments received, on April 3, 2016, the Working Group exposed nonsubstantive revisions to incorporate a new disclosure to capture current and prior period information on the number of 5* securities and the book adjusted carrying value and fair value for those securities. The Blanks (E) Working Group also exposed revisions to data-capture this disclosure information.

Interested Parties' Comments: Interested Parties have no comment on this item.

Recommended Action: **Adopt revisions to SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures as exposed.** The Blanks (E) Working Group will consider revisions during their June call to data-capture this disclosure in the year-end 2016 financial statements.

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|---|-----------------------------|--------------|----------------------------------|----------------------------|
| 2016-04 SSAP No. 97 (Josh/Fatima) | SCA Data Capture Disclosure | 7 | Comments Received | 12 |

Summary:

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to data capture the template related to the *SSAP No. 97—Investments in Subsidiary, Controlled and Affiliated Entities* SCA disclosure adopted in agenda item 2015-25.

Interested Parties' Comments:

We do not believe it is necessary to add insurance SCAs (SSAP No. 97 8b(i) entities) to this disclosure. Adding insurance SCA's is duplicative to information already included in Schedule D, Part 6. In addition, Schedule Y already includes all affiliate investments. Moreover, since insurance entities also file their own annual statements, it is unclear what is gained from including insurance SCA's in this disclosure. Therefore, interested parties do not believe there is any added benefit of including 8b(i) entities. Interested parties have also made similar comments to the Blanks Working Group regarding blanks agenda item 2016-16.

Recommended Action: Staff agrees that since 8.b.i entities are exempt from filing with the NAIC, these entities could be excluded from the disclosure. These items were previously excluded, so the only revisions needed would be to remove the proposed deletion and retain their prior exclusion. **Staff recommends that the Working Group adopt the exposed revisions with modification to retain the exclusion for 8.b.i entities (shaded below). If this modification is adopted by the Working Group, staff will communicate the revisions to the Blanks (E) Working Group and request removal of the 8.b.i entities from the proposed disclosure template.**

34. All SCA investments within the scope of SSAP No. 97 (except 8b.i. entities) shall include disclosure of the SCA balance sheet value (admitted and non-admitted) as well as information received from the NAIC in response to the SCA filing (e.g., date and type of filing, NAIC valuation amount, whether resubmission of filing is required). This disclosure shall include an aggregate total of all SCAs (except 8.b.i entities) with detail of the aggregate gross value under SSAP No. 97, with the admitted and nonadmitted amounts reflected on the balance sheet. (As noted in paragraph 4 of SSAP No. 97, joint ventures, partnerships and limited liability companies are accounted for under the guidance in SSAP No. 48. As such, those entities are not subject to this disclosure.)

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|---|---|--------------|----------------------------------|--|
| 2016-05 SSAP Nos. 26, 30 and 32 (Josh/Julie) | Removal of the Class 1 List from the P&P Manual | 8 | Comments Received | IP – 13 BlackRock – 20 BCBSAL – 25 BCS - 26 |

Summary:

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as nonsubstantive and exposed revisions to SSAP Nos. 26, 30 and 32 to reflect the removal of the Class 1 list from the P&P Manual.

BlackRock's Comments: (Note – Reference sources in BlackRock's letters have not been copied into the agenda.)

After years of debate and thoughtful consideration, in 2014, the U.S. Securities and Exchange Commission ("SEC") adopted amendments to Rule 2a-7 ("Rule") under the Investment Company Act of 1940, as amended ("1940 Act") which governs the operation of U.S. money market funds ("MMFs"). The amendments to the Rule are designed to improve the resiliency of MMFs during times of stress, and include significant structural changes to this investment vehicle.

The structural changes required by the amendments to the Rule must be implemented by October 2016. As a result of the amendments, prime institutional MMFs will no longer meet the Class 1 List requirements under the NAIC guidelines. As a result of these structural changes from the Rule, the NAIC has voted to remove the Class 1 List from the P&P Manual, effective September 30, 2016.

Insurance companies currently use and rely upon prime MMFs to assist in the management of claims reserves, premium receipts and other working capital and treasury related functions on a daily basis. By eliminating the Class 1 List, we understand from our insurance clients that prime institutional MMFs will essentially be precluded from being used as a cash management tool by them. Companies using these MMFs for daily cash management needs would be subject to statutory equity limitations; we understand that many insurance companies are already allocating investments to their statutory equity limitations and will be unable to have the large cash balances they use daily in MMFs also count towards these limits.

From a yield perspective, prime MMFs have historically provided more yield than government and treasury MMFs by a margin of 10bps. With several factors at play now in the short-term markets, we anticipate that this spread between government and treasury MMFs and prime MMFs funds could widen substantially, with industry estimates ranging between 30 and 50bps; today's spreads sit at over 20bps on average. In this low-yield environment which has plagued the industry for a number of years, every basis point matters within a cash investment portfolio.

Additionally, while BlackRock has observed that prime MMFs are used by both large and small insurance companies, and across life companies, Property & Casualty companies and health companies, we believe small

and mid-sized companies predominantly benefit from prime MMFs. These companies may not have their own in-house short-term investment teams able to buy direct money market instruments, and thus rely upon the expertise provided by a third party money market fund manager to provide access to a valuable cash management tool.

With the removal of the Class 1 List from the P&P Manual, prime institutional MMFs will be treated in a starkly different manner by the NAIC than the SEC, the Financial Accounting Standards Board and the Internal Revenue Service. Each of these entities continues to treat prime institutional MMFs as cash equivalents. Part 2, Section 9, e) of the P&P Manual states "mutual funds, including money market funds, are typically classified as common stock and reported in Schedule D - Part 2- Section 2 of the NAIC Financial Statement Blank. The VOS/TF has determined that MMFs that meet the conditions of 17CFR 270. 2a-7 and certain bond mutual funds that are registered with the SEC under the '40 Act and which also meet the conditions set forth in Part Six, Section 2 of the P&P manual, may be reported on Schedule DA - Part 1 and Schedule D - Part 1, respectively, of the NAIC Statement Blank". MMFs meeting these conditions have historically been classified as bonds and captured on one of two lists: the U.S. Direct Obligations/ Full Faith and Credit Exempt List or the Class 1 List.

With the removal of the Class 1 List which sits in Part Six, Section 2 of the P&P Manual, Prime Institutional MMFs would no longer meet the conditions set forth in Part 2, Section 9, e) of the P&P Manual and would not be eligible to receive bond treatment, or be treated as Cash or Cash Equivalents on Schedule DA. If a MMF is not treated as a bond, it would be classified as common stock.

In our view, the changes made by the SEC to the Rule will only strengthen the quality of the investments of prime institutional MMFs. We believe that the 2014 amendments to the Rule continue the efforts from the 2010 amendments and will help provide additional stability, greater transparency and more diversification to MMFs. Coupled with the increase in stress-testing requirements under the Rule, in our view, MMFs will be more robust than they ever have been.

As the Class 1 List is being eliminated, BlackRock proposes another category of MMFs be captured within the Accounting Practices & Procedures Manual ("AP&P Manual"), the P&P Manual, and the Quarterly and Annual Statement Instructions. Our recommendation would be for a prime institutional MMF to be classified as a Short-term Investment, receive treatment as a bond, and continue to be treated as a cash equivalent.

We would like to address the revisions within SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities, and SSAP No. 30 – Common Stock that would be required to allow prime institutional MMFs to continue to be an investable product for many insurance companies. Additionally, we would like to address SSAP No. 2 – Cash, Drafts and Short-term Investments to clarify treatment of Money Market Funds as Short-term Investments.

SSAP No. 26—Bonds, Excluding Loan-Backed and Structured Securities

Within the bond definition, we are proposing to expand the definition of a MMF to include all MMFs that meet the requirements of the Rule under the 1940 Act. Without the addition of the "Other Money Market Mutual Fund List" language, only Government MMFs would receive treatment as a bond and Prime Institutional MMFs would be captured under SSAP 30 as Common Stock:

2. Bonds shall be defined as any securities representing a creditor relationship, whereby there is a fixed schedule for one or more future payments. This definition includes:
 - i. Exchange Traded Funds, which qualify for bond treatment, as designated in Part Six, Section 2 (d) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*;
 - j. Bond Mutual Funds which qualify for the Bond List, as designated in Part Six, Section 2 (b) (ii) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*, and

- k. Money Market Funds which [meet the requirements of Rule 2a-7 Money Market Funds under the 1940 Act, including those which](#) qualify for the U.S. Direct Obligations / Full Faith and Credit Exempt List [and on the Other Money Market Mutual Fund List](#), as designated in Part Six, Section 2 (b) (i) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*.

SSAP No. 30—Common Stock

To correspond with our previous recommendation of MMFs receiving classification as a “bond” under SSAP No. 26, we propose the language in SSAP No. 30 be amended to:

- 3. Common stocks (excluding investments in affiliates) are securities which represent a residual ownership in a corporation and shall include:
 - d. Shares of mutual funds, regardless of the types or mix of securities owned by the fund (e.g., bonds, stocks, money market instruments, or other types of investments), except for:
 - i. Bond Mutual Funds which qualify for the Bond List, as designated in Part Six, Section 2 (b) (ii) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*;
 - ii. Money Market Funds which [meet the requirements of Rule 2a-7 Money Market Funds under the 1940 Act, including those which](#) qualify for the U.S. Direct Obligations / Full Faith and Credit Exempt List [and on the Other Money Market Mutual Fund List](#), as designated in Part Six, Section 2 (b) (i) of the *Purposes and Procedures Manual of the NAIC Investment Analysis Office*

SSAP No. 2—Cash, Drafts and Short-Term Investments

Money market funds which meet the requirements of the Rule are, by design, short-term investments.

To meet the definition of the Rule, prime institutional MMFs must meet the following criteria:

- a. The Fund’s dollar-weighted average maturity must be less than or equal to 60 days.
- b. The Fund’s dollar-weighted average life (“WAL”) is limited to 120 days or less.
- c. A security must have a remaining maturity of 397 days or less from date of acquisition (with certain exceptions).
- d. The Fund must have 10% of its total assets in daily liquid assets (except tax-exempt money market funds) and 30% of its total assets in weekly liquid assets. (Daily liquid assets include cash, U.S. Treasury securities and securities readily convertible to cash within one business day. Weekly liquid assets include daily liquid assets – except convertible to cash within five business days rather than one – as well as U.S. government agency discount notes with remaining maturities of 60 days or less.)
- e. A money market fund is limited to investing in a security only if the fund determines that the security presents minimal credit risks after analyzing certain prescribed factors. These prescribed factors must include an analysis of the security issuer’s financial condition; sources of liquidity; ability to react to future market-wide and issuer- or guarantor-specific events, including ability to repay debt in a highly adverse situation; and the strength of the issuer or guarantor’s industry within the economy.
- f. The Fund may not invest more than 5% in illiquid securities.

The SEC still considers MMFs to be cash equivalents even after amendments to the Rule. They stated in their release of the final Rule: “the Commission’s position continues to be that, under normal circumstances, an investment in a money market fund that has the ability to impose a fee or gate under rule 2a-7(c)(2) qualifies as a “cash equivalent” for purposes of U.S. GAAP. However, as is currently the case, events may occur that give rise to credit and liquidity issues for money market funds. If such events occur, including the imposition of a fee or gate by a money market fund under rule 2a-7(c)(2), shareholders would need to reassess if their investments in that money market fund continue to meet the definition of a cash equivalent.”

Additionally, the American Institute of Certified Public Accountants “AICPA” and each of the “Big Four” accounting firms, stated in their comment letters to the SEC on the Rule amendments that they agree with the SEC in that U.S. GAAP would not preclude a money market fund with a floating NAV or the ability to impose fees and gates from being classified as a cash equivalent. Current U.S. GAAP defines cash equivalents as “short-term, highly liquid investments that are readily convertible to known amounts of cash and that are so near their maturity that they present insignificant risk of changes in value because of changes in interest rates.” U.S. GAAP includes an investment in a money market fund as an example of a cash equivalent.

All MMFs should continue to meet the definition of Short-Term Investments under SSAP No. 2 within the AP&P.

We propose SSAP No. 2 to be amended as follows to ensure MMFs continue to be treated as short-term investments:

Short-Term Investments

10. All investments with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding those investments classified as cash equivalents as defined in Paragraph 3) shall be considered short-term investments. Short-term investments include, but are not limited to, bonds, commercial paper, money market instruments, money market mutual funds, repurchase agreements, and collateral and mortgage loans which meet the above criteria. Short term investments shall not include certificates of deposit.

11. All short-term investments shall be accounted for in the same manner as similar long-term investments. Investments in money market funds shall be reported in accordance with the guidance in the Purposes and Procedures Manual of the NAIC Valuation Office.

Comments Supporting BlackRock’s Letter Received From BCS Insurance Company, 4 Ever Life Insurance Company, Plans’ Liability Insurance Company, Blue Cross Blue Shield of Alabama and Blue Shield of California Life Insurance Company.

I am in full support of BlackRock’s comment letter to you dated May 11, 2016. Having our 2a-7 money market funds count as common stock has serious implications on the future of our short term cash investment strategy.

We, at BCBSAL, carefully manage our cash—season-to-season and day-to-day. We use money market funds as the most flexible way to invest and accumulate cash in anticipation of short-term needs. We thank the NAIC for their consideration and look forward to a definitive response, not only for us, but the entire insurance industry who are all faced with the same scenario.

Interested Parties’ Comments:

Interested parties do not agree with the proposed revisions to SSAP No. 26, SSAP No. 30 and SSAP No. 32 for the reasons stated in the May 11, 2016 comment letter to the Working Group from BlackRock, Inc. (BlackRock). However, the interested parties’ position is that money market funds should be reported and accounted for as cash equivalents.

We see no compelling reason as to why the statutory accounting and reporting of money market funds that comply with Rule 2a-7 of the Investment Company Act of 1940, as amended, should differ from the reporting of those instruments under U.S. GAAP. We re-emphasize the point stated in the May 11, 2016 BlackRock comment letter that the AICPA and each of the Big 4 accounting firms agree with the SEC that U.S. GAAP would not preclude a money market fund with a floating NAV or the ability to impose fees and gates from being classified as a cash equivalent. Additionally, we believe that the characteristics of money market funds more closely align with definition of cash equivalents in paragraph 3 of SSAP No. 2, Cash, Drafts and Short-Term Investments because of the near immediate liquidity of these money market funds.

Therefore, we recommend the following changes to paragraph 3 of SSAP No. 2:

Also classified as cash for financial statement purposes, although not falling within the above definition of cash, are savings accounts and certificates of deposit in banks or other similar financial institutions with maturity dates within one year or less from the acquisition date, and cash equivalents. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. Only investments with original maturities of three months or less qualify under this definition. Securities with terms that are reset at predefined dates (e.g., an auction-rate security that has a long-term maturity and an interest rate that is regularly reset through a Dutch auction) or have other features an investor may believe results in a different term than the related contractual maturity shall be accounted for based on the contractual maturity at the date of acquisition, except where other specific rules within the statutory accounting framework currently exist. Cash equivalents include U.S. money market mutual funds that are compliant with Rule 2a-7 of the Investment Company Act of 1940, as amended Money market mutual funds that are classified as cash equivalents shall be reported at net asset value.

Along with the above recommendation, interested parties further recommend that the Working Group consider corresponding changes that would need to be made to the annual and quarterly statements and related instructions, risk-based capital and any other regulatory tools in order to facilitate the reporting of money market mutual funds as cash equivalents. Interested parties will be happy to work with regulators and staff on any such required changes.

Recommended Action: Staff agrees that clarification is necessary for the reporting of Money Market Mutual Funds (MMMFs). **Staff has proposed revisions to SSAP No. 2—Cash, Drafts, and Short-Term Investments to clarify MMMFs as short-term investments and suggests a referral to the Blanks (E) Working Group to retain the existing reporting line number, but rename the current Class 1 reporting line on Schedule DA to “Other Money Market Mutual Funds.” Additionally, staff suggests a referral to the Valuation of Securities (E) Task Force to remove reporting references for MMMFs.** The revisions proposed are detailed in the agenda item; however, the key changes are shown below.

Staff has proposed retaining the MMMFs as short-term investments as that is consistent with the prior reporting of the Class 1 MMMFs. With this approach, the removal of the Class 1 distinction should have virtually no impact on the reporting of MMMFs. Staff recognizes that MMMFs will be captured within *SSAP No. 30—Unaffiliated Common Stock* (instead of SSAP No. 26), however, from discussions with some members of industry the “fair value” reported for these MMMFs will be indiscernible from the prior reported value. **As this agenda item was focused on the removal of the Class 1 listing by the VOSTF, staff recommends moving forward with the limited revisions to SSAP No. 2, as those revisions retain the short-term reporting provisions for MMMFs.** If there is a desire to reconsider the “short-term” reporting of MMMFs and instead assess whether these items should be classified as “cash equivalents,” it is recommended that the Working Group direct staff to work with interested parties in developing a separate agenda item for subsequent consideration.

10. All investments with remaining maturities (or repurchase dates under repurchase agreements) of one year or less at the time of acquisition (excluding those investments classified as cash equivalents as defined in paragraph 3) shall be considered short-term investments. Short-term investments include, but are not limited to, bonds, commercial paper, money market instruments, repurchase agreements, and collateral and mortgage loans which meet the above criteria. Money Market Mutual Funds registered under the Investment Company Act of 1940 and regulated under rule 2a-7 of the Act are short-term investments whether they are accounted for under SSAP No. 26² or SSAP No. 30. Short-term investments shall not include certificates of deposit.

New Footnote 2: As detailed in SSAP No. 26, money market mutual funds on the U.S. Direct Obligations / Full Faith and Credit Exempt List, as identified in Part Six, Section 2 of the Purposes

and Procedures Manual of the NAIC Investment Analysis Office are accounted for under SSAP No. 26. All other Money Market Mutual Funds shall be accounted for under SSAP No. 30.

11. All short-term investments shall be accounted for in the same manner as similar long-term investments. Investments in money market funds shall be reported in accordance with the guidance in the Purposes and Procedures Manual of the NAIC Investment Analysis Office.

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|---|---------------------|--------------|----------------------------------|----------------------------|
| 2016-09 SSAP No. 1 (Fatima/Julie) | Collateral Received | 9 | Comments Received | 16 |

Summary:

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to *SSAP No. 1—Accounting Policies, Risks & Uncertainties and Other Disclosures* to add a disclosure to capture the aggregate total of collateral assets reported as assets on the insurer's financial statement and the corresponding liability.

Interested Parties' Comments:

Interested parties note that most of the information that would be included in this disclosure would be collateral received under securities lending agreements and cash collateral received on derivatives. Since both of these items are already disclosed in the financial statements, we do not see the need for an additional disclosure. However, if there is a desire to move forward with the disclosure, we would recommend disaggregating the information by the nature of collateral (securities lending, derivatives, etc.) rather than the annual statement schedule in which the collateral is located. This would make the disclosure consistent with the Restricted Assets footnote and in our view, provide more useful information to regulators. We also do not believe a comparison to total admitted assets is necessary.

Recommended Action:

Staff recommends adopting the disclosure as exposed to allow for reporting / data-capturing in the 2016 year-end financial statements. This item was initiated from a regulator inquiry requesting assistance in determining the total amount of collateral held reported on the reporting entity's balance sheet, and the corresponding liability recognized for the return of the collateral. Although the items noted by industry are likely to be key drivers in the disclosure, the particular issue noted by the regulator included surety bonds, and the amount of collateral received and reflected on balance sheet was 40% of total assets and the liability to return was 60% of total liabilities. **Although staff agrees that a disaggregation of the disclosure would like provide additional detail, for year-end 2016, staff recommends retaining the proposal as exposed.** The intent of this disclosure is not to necessarily duplicate existing information available throughout the financials, but to rather provide the aggregate totals, so regulators can easily identify the information, along with the percentage / impact of the amounts to the financial statements (e.g., total assets and total admitted assets). This information is desired so regulators can quickly obtain the information when completing their analytical assessments. *If there is a desire to incorporate a disaggregation of the total, staff will develop a new agenda item for subsequent consideration.*

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
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| 2016-11 SSAP No. 1 (Josh) | ILS Data Capture Disclosure | 10 | Comments Received | 17 |

Summary:

On April 3, 2016, the Working Group moved this agenda item to the active listing, categorized as nonsubstantive, and exposed a proposed data capture disclosure template with instructions to complete the disclosures.

Interested Parties' Comments:

Interested parties have concerns regarding the scope of the proposed footnote 1 disclosures that are included in Ref # 2016-11 as well as exposed by the Blanks Working Group. First, we are concerned that the wording might be interpreted as requiring a ceding insurer to disclose all ILS of its reinsurer, including those ILS not associated with the contract(s) between the ceding insurer and the reinsurer. The ILS disclosure requirements of paragraph 25 of SSAP No. 1, *Accounting Policies, Risks & Uncertainties, and Other Disclosures* (SSAP No. 1) relate only to the ILS associated with the ceded reinsurance for which the reporting entity may receive possible proceeds. Therefore, we propose wording clarifications to the proposed footnote, as detailed below. In addition, we believe the language of the last paragraph of the proposed footnote goes beyond the scope and intended authority in the statutory hierarchy of the NAIC *Annual Statement Instructions*, the purpose of which is to provide instruction for completing the annual and quarterly statutory statements and required supplemental filings, including instructions for completing data capture templates. We recommend deletion of that paragraph:

Footnote 1: In situations in which a reporting entity has ceded risk to a reinsurer, and the reinsurer has engaged in ILS (either directly or through a broker), the following should be used by the cedent reporting entity in completing the disclosure

The ceding company shall complete the disclosure with information that they know regarding the reinsurance entities' involvement with ILS that would likely be used to satisfy their reinsurance arrangement. For this disclosure, information shall be provided that details the maximum possible ILS proceeds as a result of the reinsurer's ILS activity associated with the reinsurance arrangement(s) with the reporting entity. If information is known regarding the number of ILS contracts that information shall also be included. If specific information is not known by the cedent on the number of ILS contracts associated with the reinsurance arrangement(s) with the reporting entity, the cedent shall report the information known (such as whether there is one ILS contract, or more than one ILS contract, or that the number of ILS contracts is not known). With the cedent entity reporting what is known (and what is not known), the regulator has needed information to further inquire with the ceding company.

~~Additionally, the ceding company should be knowledgeable of their reinsurance counterparty. As such, the cedent should be aware on whether the reinsurer is following a traditional approach, or whether the reinsurer is engaging in ILS to satisfy reinsurance claims.~~

Recommended Action: Staff recommends adopting the agenda item with the interested parties' proposed edits. Staff notes that the proposed edits do not change the guidance within *SSAP No. 1—Accounting Policies, Risks & Uncertainties, and Other Disclosures*, but, if the Working Group supports this change to the agenda item, staff will communicate the recommended modifications to the Blanks (E) Working Group for consideration during their June call.

REVIEW OF COMMENTS ON EXPOSED ITEMS

1. Ref #2015-23: Prepayment Penalties on Callable Bonds – Bifurcation of Agenda Item 2015-04
2. Ref #2016-12: Policy Statement Revisions

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|----------------------------------|--|--------------|----------------------------------|----------------------------|
| 2015-23 SSAP No. 26 (Josh) | Prepayment Penalties on Callable Bonds – Bifurcation of Agenda Item 2015-04 | 11 | Comments Received | 4 |

Summary:

On November 19, 2015, the Working Group exposed revisions to various SSAPs and reporting tools to clarify the appropriate reporting of prepayment penalties within the investment schedules. These exposed revisions are shown throughout the “2015 Fall National Meeting Discussion and Proposed Revisions.”

On April 3, 2016, the Working Group exposed nonsubstantive revisions to SSAP No. 26 and SSAP No. 43R—*Loan-Backed and Structured Securities* to propose a new disclosure, as well as clarifying guidance on the amount of investment income and/or realized capital gains/losses to be reported upon disposal of an investment (with an effective date of 1/1/2017), as shown within the 2016 Spring National Meeting Discussion and Proposed Revisions section of the agenda item.

Interested Parties’ Comments:

We do not offer any comments on the accounting and reporting changes but do have comments on the proposed disclosures.

The disclosure asks for the number of CUSIPs and aggregate amount of net investment income generated from make whole provisions, prepayment penalties and acceleration fees separated into three separate categories: 1) traditional call features, 2) make whole call provisions and 3) other callable features. Interested parties do not understand how to accurately disaggregate items into these three categories and also believe there could be items that fall into more than one category. As a result, the categorization would likely be inconsistent among companies and not result in meaningful information. Therefore, we recommend keeping the disclosure simple and eliminating the three categories.

We also recommend clarifying that the new guidance is effective on a prospective basis in paragraph 64 of SSAP No. 43R, to address our previous concerns about the operational complexity of retrospective adoption.

Recommended Action:

Adopt revisions as exposed with the inclusion of the following technical edits to reflect recommendations from interested parties: 1) clarify that the revisions to SSAP Nos. 26 and 43R are on a prospective basis and 2) revisions to the proposed disclosure to remove the identification of securities within categories. Additionally, a blanks proposal will be drafted for exposure consideration by the Blanks (E) Working Group on their June conference call. Revisions from exposure draft have been shaded.

SSAP No. 26—Bonds

Disclosures

22. The financial statements shall include the following disclosures:

m. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), the following categories shall disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee: 1) traditional call features; 2) make whole call provisions and 3) other callable features.

26. This statement is effective for years beginning January 1, 2001. *[Detail Eliminated to Conserve Space]* Guidance adopted in December 2013 clarifying the ‘yield-to-worst’ concept for bonds with make-whole call provisions is a nonsubstantive change initially effective January 1, 2014, unless the company has previously been following the guidance. (Companies that have previously been following the original intent, as clarified in the revisions, should not be impacted by these changes.). The guidance in paragraph 16, with respect to the calculation of investment income for prepayment penalty and/or acceleration fees is effective January 1, 2017 on a prospective basis, and is required for interim and annual reporting periods thereafter. Early application is permitted.

SSAP No. 43R—Loan-Backed and Structured Securities

50. In addition to the disclosures required for invested assets in general, the following disclosures regarding loan-backed and structured securities shall be made in the financial statements. Regardless of the allowances within paragraph 62 of the Preamble, the disclosures in paragraph 49.f., 49.g. and 49.h. are required in separate, distinct notes to the financial statements:

I. For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), the following categories shall disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.: 1) traditional call features; 2) make whole call provisions and 3) other callable features

64. The guidance in paragraph 12, with respect to the calculation of investment income for prepayment penalty and/or acceleration fees is effective January 1, 2017 on a prospective basis, and is required for interim and annual reporting periods thereafter. Early application is permitted

Note 5 - Investments

m. Prepayment Penalty and Acceleration Fees

For securities sold, redeemed or otherwise disposed as a result of a callable feature (including make whole call provisions), the following categories shall disclose the number of CUSIPs sold, disposed or otherwise redeemed and the aggregate amount of investment income generated as a result of a prepayment penalty and/or acceleration fee.: 1) traditional call features; 2) make whole call provisions and 3) other callable features

Note 5.m – Illustration

Staff Note: The format of the illustration has been revised to mirror the illustration to be exposed by the Blanks (E) Working Group

| Category | Number of CUSIPs | Aggregate Amount of Investment Income |
|---------------------------------------|------------------|---------------------------------------|
| Traditional Call Features | | |
| Make Whole Call Provisions | | |
| Other Callable Features | | |

K. Prepayment Penalty and Acceleration Fees

- (1) Number of CUSIPs
- (2) Aggregate Amount of Investment Income

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|---------|----------------------------|--------------|----------------------------------|----------------------------|
| 2016-12 | Policy Statement Revisions | 12 | Comments | 18 |

| | | | | |
|----------------------|--|--|----------|--|
| Appendix F (Josh) | | | Received | |
|----------------------|--|--|----------|--|

Summary:

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix F as shown in Appendices 1-6 of the agenda item:

Interested Parties' Comments:

The proposal stated that the editorial changes should be presented with the meeting materials and adopted at the meeting. We do not believe that is sufficient time for review given the timing of the distribution and the depth and breadth of the materials distributed for the National meeting. We propose that the editorial items be exposed for a public comment period to ensure there is adequate review time and there are no unintended consequences that may result from the proposed changes.

Recommended Action:

Staff recommends that the Working Group adopt revisions to Appendix F—Policy Statements as exposed, with the technical edits detailed below, which reflect the recommendation from interested parties to expose the editorial revisions memorandum for a public comment period. Revisions from the exposure are shaded.

Correction of Editorial Errors

Over time, during review and publication of the AP&P Manual, NAIC staff may identify inadvertent editorial errors and necessary revisions to the content of the Manual. These are editorial in nature and include grammatical errors, reference changes (i.e. paragraphs, SSAPs and Model Laws and Regulations) and formatting issues. To aid in the correcting of these items and improve the overall usefulness of the Manual, the Working Group has implemented the following process:

- At each meeting of the Working Group, if NAIC staff have identified (or have been informed by interested parties or regulators) any grammatical errors, reference changes and/or formatting issues, NAIC staff will present a public memorandum to the Working Group outlining the proposed amendments to the AP&P Manual. These corrections are not intended to clarify or revise existing guidance and as such, do not ordinarily warrant the use of a Form A or addition to the Maintenance Agenda.
- After presentation ~~of the memorandum~~ to the Working Group, the memorandum will be exposed for a public comment period. ~~if~~ If no objections are raised by the Working Group, interested regulators or interested parties, the revisions will be considered “noncontested” and presented to the Working Group for adoption. ~~adopted and~~ Upon adoption, the revisions will be incorporated into the AP&P Manual, with the revisions being posted on the “Updates to the AP&P Manual” secure Web page. Under this process, these revisions ~~1) will not be exposed for a public comment period and 2) will be shown as tracked changes to the Manual unless otherwise noted~~ in the memorandum.
- If objections are raised by the Working Group, interested regulators or interested parties, the proposed revisions will either be rejected without further discussion or incorporated into a Form A to be presented to the Working Group and subsequently exposed for a public comment period. Under this process, the revisions will follow the Maintenance Agenda process as outlined in this Policy Statement. ~~Further, if additional time is needed to review the proposed editorial revisions, the Working Group may elect to defer discussion and consideration of the revisions until a subsequent meeting of the Working Group.~~

(Staff Note: The language deleted is no longer applicable if there will be the public exposure of the editorial memorandum)

REVIEW AND ADOPTION of NON-CONTESTED POSITIONS

The Working Group may elect to discuss the following items even though no comments were received. A single motion/vote can be considered for these items, however, staff notes that direction / discussion may be necessary for a few of the items. (These agenda items are specifically identified in italics below.)

1. Ref #2015-43: *EITF 99-02: Accounting for Weather Derivatives – Working Group Direction Requested*
2. Ref #2015-47: Principle-Based Reserving SSAP
3. Ref #2016-07: *ASU 2015-17 – Balance Sheet Classification of Deferred Taxes*
4. Ref #2016-08: Method for Applying Discount Rates to Measure Net Periodic Benefit Cost
5. Ref #2016-10: Appendix A-820

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|----------------------------------|--|--------------|----------------------------------|----------------------------|
| 2015-43 SSAP No. 86 (Josh) | EITF 99-02: Accounting for Weather Derivatives | 13 | No Comments | 8 |

Summary:

On November 19, 2015, the Working Group moved this item to the nonsubstantive active listing and exposed nonsubstantive revisions to *SSAP No. 86—Derivatives* and Appendix D to incorporate the definition of a weather derivative, and to adopt with modification EITF 99-02 to require weather derivatives to be reported and valued consistently with other derivatives in SSAP No. 86.

On April 3, 2016, the Working Group exposed nonsubstantive revisions to SSAP No. 86 and Appendix D, as illustrated within the Spring 2016 Proposed Revisions section of the agenda item, to incorporate the definition of a weather derivative, and to adopt with modification EITF 99-02 to require weather derivatives to be reported and valued consistently with other derivatives in SSAP No. 86. Additionally, the Working Group exposed the illustration detailed in the staff response to interested parties comments identifying the difference between an insurance contract between an insurer and a policyholder and a weather derivative.

Interested Parties' Comments: Interested parties have no additional comments on this item

Recommended Action:

Adopt revisions to SSAP No. 86 as exposed. (In taking action on this item, staff requests direction on whether the exposed illustration in the agenda item should be included as a new appendix to SSAP No. 86.)

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|-----------------------------------|--------------------------------|--------------|----------------------------------|----------------------------|
| 2015-47 SSAP No. 51 (Robin) | Principle-Based Reserving SSAP | 14 | Support Revisions | 9 |

Summary:

On April 3, 2016, the Working Group exposed substantive revisions to *SSAP No. 51—Life Contracts* to incorporate references to the *Valuation Manual* and to facilitate the implementation of Principle-Based Reserving.

Interested Parties' Comments: Interested parties support the substantive revisions to SSAP No. 51.

Recommended Action:

Adopt substantive revisions to SSAP No. 51 as exposed with a Jan. 1, 2017 effective date and direct staff to document the revisions and discussions within the principle-based reserving issue paper. This effective date is supported by the May 2, 2016 recommendation of the Principle Based Reserving Implementation (EX) Task Force that the *Valuation Manual* operative date requirements have been met.

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|-------------------------------------|--|--------------|----------------------------------|----------------------------|
| 2016-07 SSAP No. 101 (Fatima) | ASU 2015-17 – Balance Sheet Classification of Deferred Taxes | 15 | No Comment | 15 |

Summary:

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 101 to reject ASU 2015-17 for statutory accounting.

Interested Parties' Comments: Interested parties have no comment on this item.

Recommended Action: Adopt exposed revisions to SSAP No. 101—*Income Taxes* to reject ASU 2015-17.

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|---|---|--------------|----------------------------------|----------------------------|
| 2016-08 SSAP Nos. 92 and 102 (Josh) | Method for Applying Discount Rates to Measure Net Periodic Benefit Cost | 16 | Support Revisions | 16 |

Summary:

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to SSAP No. 92—*Postretirement Benefits Other Than Pensions* and SSAP No. 102—*Pensions* as shown within the agenda item to allow for an alternative method for measuring the service cost and interest cost components of net periodic benefit cost

Interested Parties' Comments: Interested parties support the proposed revisions in this item.

Recommended Action: Adopt exposed revisions to SSAP No. 92 and SSAP No. 102 to allow for an alternative method for measuring the service cost and interest cost components of net periodic benefit cost.

| Ref # | Title | Attachment # | Agreement with Exposed Document? | Comment Letter Page Number |
|----------------------------------|----------------|--------------|----------------------------------|----------------------------|
| 2016-10 App. A-820 (Robin) | Appendix A-820 | 17 | Support Revisions | 17 |

Summary:

On April 3, 2016, the Working Group moved the agenda item to the active listing, categorized as nonsubstantive, and exposed revisions to Appendix A-820, *Minimum Life and Annuity Reserve Standards* which incorporate relevant aspects of the Standard Valuation Law as shown in Exhibit A of the agenda item. The proposed effective date is January 1, 2017, but this is subject to the determination of the operative of the valuation manual as described above.

Interested Parties' Comments: Interested parties support the proposed changes to Appendix A-820 *Standard Valuation Law* for Principle-based Reserving.

Recommended Action: **Adopt exposed revisions to Appendix A-820 with the Jan. 1, 2017 effective date. This effective date is supported by the May 2, 2016 recommendation of the Principle Based Reserving Implementation (EX) Task Force that the *Valuation Manual* operative date requirements have been met.**

NOTE: The 26 pages of comment letters are included as Attachment 18.

OTHER EXPOSURE / DISCUSSION ITEMS

Detailed discussion is not anticipated. Updates may be provided if time allows and as needed based on regulator or industry request.

1. Ref #2013-36: Investment Classification – ETFs (Proposed Revisions to SSAP No. 26)
2. Other Agenda Items Exposed at the Spring National Meeting: *(Staff anticipates detailed discussion during a subsequent call or meeting.)*
 - a. Ref #2015-21: Salvage and Subrogation;
 - b. Ref #2015-27: Quarterly Reporting of Investment Schedules;
 - c. Ref #2015-46: Correction of An Error in SSAP No. 3;
 - d. Ref #2015-51: Definition of Notional;
 - e. Ref #2015-52: Clarification of Permitted Practice Disclosure;
 - f. Ref #2016-02: ASU 2016-02 – Leases;
 - g. Ref #2016-06: Financial Instruments;
 - h. Ref #2016-13: Policy Statement on Coordination with P&P Manual

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